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ARAB STATES - ISRAEL: The Egyptian-Israeli prisoner-of-war exchange continued to move along smoothly over the weekend, with over half the prisoners held by each side reportedly having been returned. The evacuation of wounded from Suez city, meanwhile, was completed yesterday, according to a Red Cross spokesman. A total of 1,281 men, many reportedly from the Egyptian Third Army, and one child were evacuated in three days. Sixty wounded remain in Suez, but the Red Cross says they have adequate medical care there. The resupply of Suez and the Third Army with humanitarian and other non-military goods continued without any apparent problems. Egyptian and Israeli negotiators are to meet today for an informal session at Kilometer 101 to discuss, among other things, the disengagement of forces and the resupply of Suez city, according to a UN spokesman in Cairo.

Egypt, meanwhile, reportedly has protested to the UN Israel's efforts to construct a causeway across the Suez Canal at the northern end of the Great Bitter Lake, charging that such activity constitutes a very serious violation of the cease-fire and a major engineering change of the canal.

Exchanges of small-arms fire on both fronts and the downing of one [redacted] Israeli aircraft along the Suez Canal marred the cease-fire yesterday. Israel has admitted losing one aircraft to Egyptian surface-to-air missiles north of Ismailia.

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A report from the UN Emergency Force indicates that three Egyptians were killed and another three wounded when their truck approached Israeli lines near Suez city and was fired on by the Israelis. According to an Israeli press report, Syrian and Israeli forces yesterday exchanged mortar fire along the northern sector of the Syrian front.

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Libyan President Qadhafi began a four-day visit to Yugoslavia yesterday--his first trip outside the Arab world since he assumed power in 1969. Qadhafi considers Yugoslavia a trustworthy friend of the Arabs and apparently hopes to finalize a sizable oil sale in exchange for arms and a military assistance program. The Libyan leader's decision to travel at this critical point in Middle East politics may have been designed to underscore his disregard for current peace efforts there.

Meanwhile, press reports from Baghdad predict that Egypt's President Sadat will fly to Belgrade to explain his acceptance of the cease-fire to Qadhafi. Sadat reportedly asked President Tito to host such a fence-mending effort, perhaps in the belief that Tito could serve as an objective third party mediator. An article in a Beirut paper over the weekend also claimed Sadat would meet with Soviet General Secretary Brezhnev "very soon" to discuss matters of "extreme importance." No date or meeting place was given.

King Husayn of Jordan, meanwhile, arrived in Tehran yesterday. According to press reports, he intends to discuss with the Shah the possibility of convening, perhaps early next month, a summit conference of Islamic states.

Several important Arab leaders may not attend the Arab summit meeting to be held in Algiers on 26 November. According to press accounts, Libya's President Qadhafi has stated he will not attend and Iraqi leaders will not either. The Iraqi News Agency reported yesterday that 11 of the 18 Arab League member states have so far agreed to participate in the summit. Libya, Iraq, and Saudi Arabia were not among the 11.

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( Numerous Arab and black African officials, meanwhile, arrived in Addis Ababa over the weekend to attend a special session of the Ministerial Council of the Organization of African Unity starting today. The session was called at the urging of the Algerians, in particular, to discuss the Middle East crisis and to get the OAU on record as backing the Arab cause.

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The Israeli cabinet, meanwhile, yesterday approved Prime Minister Meir's proposal to establish a special five-man judicial commission of inquiry to probe the armed forces' preparedness for and conduct of the war. The commission will be separate from a recently begun military investigation. According to press reports, Mrs. Meir chose what

amounts to a judicial investigation so that it would be regarded as non-political by the Israeli public. It is unlikely, however, that the inquiry will be completed before the Israeli general elections scheduled for 31 December.

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Yesterday's announcement by the Arab oil producers that the production cutback planned for December will not affect exports to eight of the nine EC countries should at least temporarily reduce public criticism in Europe of the pro-Arab position recently adopted by the EC. The announcement stated that the Arab action was "in appreciation" of the EC's stance on the Middle East, as expressed in the statement adopted by the nine EC foreign ministers on 6 November. The latest Arab action on oil, however, does not include any changes in the previously announced 25-percent cutback in production or in the total ban on exports to the Netherlands. Thus, while the Europeans can take some satisfaction, the oil squeeze will continue.

The Arab move will also have the effect of emphasizing differences between Europe and the US on Middle East issues. These differences may be made even sharper if the exemption gained by the EC encourages it to tilt still more toward the Arabs in hopes of inducing a further relaxation of the restrictions on the flow of Arab oil to Europe.

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LIBYA: President Qadhafi--angered by Cairo's acceptance of the cease-fire and President Sadat's apparent willingness to go to the negotiating table--is openly campaigning against the six-point accord between Egypt and Israel.

Breaking a long silence in a press interview early last week, Qadhafi protested great-power efforts to halt the Arab-Israeli conflict, which he claimed could never be resolved by negotiations. Although the Libyan leader stopped short of publicly denouncing Egypt, his remarks reflected his deepening rift with Sadat and unwillingness to cooperate in future peace talks.

Qadhafi's behavior throughout the recent crisis has been almost exclusively determined by his belief that the war was ill-timed and waged solely for the territorial gains of Cairo and Damascus rather than for the complete restoration of Palestine to the Arabs. The events of the past six weeks, and particularly Egypt's acceptance of the six-point accord, have confirmed Qadhafi's long-held suspicion that Egypt is prepared to accept the boundaries of Israel as they existed before the 1967 war. Recognition of Israel, however indirect, and the prospect of great-power sponsorship of a settlement are anathema to Qadhafi.

Although Qadhafi at present appears anxious to avoid an open rupture with Egypt, he is working behind the scenes to undermine support for Sadat's position. He and other members of the Revolutionary Command Council have been in frequent contact with other Arab leaders with the apparent aim of isolating Sadat before peace talks begin. Despite Qadhafi's lack of credibility in most Arab capitals, he may be receiving a hearing from many of those who have long regarded Egypt as a too-powerful and self-interested neighbor and from those radical elements in all Arab countries who share Libya's goal of ejecting all "European" Jews from Palestine.

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Even among Arab moderates, Libya's appeals may well play on traditional fears of Egyptian hegemony, especially now that Cairo has renewed its indebtedness to Moscow. The Libyans may also amplify misgivings by Syrians and Palestinians that Egypt will abandon their territorial claims, once serious negotiations are under way.

A major purpose of Libya's diplomatic initiatives has been to drum up support for an Arab summit conference. Qadhafi's initial hope was to create a situation in which Sadat would be forced to explain his intentions and in turn would be held answerable to those who take a hard line toward a settlement with the Israelis. Angered by the scheduling of a meeting of foreign ministers prior to the 26 November date set for the summit in Algiers, Qadhafi now refuses to attend the conference, which he claims will only rubber-stamp what has "already been worked out in Cairo."

The Libyans' effort to counter Egypt's commitment to negotiations has been complicated by the Arab oil production cuts and embargo against the US. King Faysal has clearly tied lifting of the embargo to an Israeli withdrawal from the territories occupied since 1967--an objective that Qadhafi feels does not serve the broad pan-Arab cause. Libya's footdragging in implementing the embargo and its relatively moderate initial cuts in production may have been the result of Qadhafi's reluctance to participate in a venture he believed would only hasten an imposed settlement. Although Tripoli's production cutbacks are now in line with the 25-percent reductions of other Arab oil producers, Prime Minister Jallud said last week that Libya's sanctions are being applied against those countries that refuse to sell advanced weapons to Libya. Jallud did not specifically state that his country had withdrawn its support from the overall Arab oil sanctions; however, his announcement seemed to be aimed at gradually dissociating Libya from the Saudi-sponsored objectives. Such a move would give Qadhafi greater flexibility to manipulate Libyan oil to his own political ends.

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GREECE: The government, fearing new demonstrations, placed military forces on full alert yesterday as a "precautionary measure."

Army and police continued to skirmish with small groups of demonstrators in Athens throughout the day. The toll of the weekend disturbances included nine dead, 350 injured, and more than 1,200 arrested.

In a radiobroadcast on Saturday, President Papadopoulos said martial law and a curfew had been declared. He blamed the demonstrations on politicians and "anarchic elements" trying to frustrate his efforts to return Greece to political "normalcy." The President said his previous policy of "self-restraint" had been misunderstood, and he urged those politicians who had backed the demonstrators to reconsider. None of the politicians has been arrested, although former prime minister Kanellopoulos issued a statement hailing the demonstrators as "showing the way to democracy." Feeling against the politicians is reportedly running high in the government, and Papadopoulos' former military colleagues, who in recent months had been largely alienated by his policies, now appear to be supporting him.

It is not yet clear who was directing the antiregime activity inside the Polytechnic Institute, the center of the demonstrations until it was cleared by the army on Saturday morning. Followers of exiled leftist Andreas Papandreu were much in evidence as agitators and participants, however.

The timing of the demonstrations was unfortunate for the government's efforts to "politicalize" the regime. The politicians had been largely adopting a wait-and-see attitude toward Prime Minister Karamanlis' invitation to participate in elections; many were tempted to take part if the Prime Minister carried through on his pledge of "impeccable" election procedures. Now the politicians may read the

weekend's events as proof that nothing has changed and the authoritarian character of the government remains. At the same time, the politicians must share some blame for the events because of their encouragement of the students.

Nevertheless, Papadopoulos has reaffirmed his intention to continue with the political normalization program, toward which some army officers have been cool. The US Embassy believes the weekend's events demonstrate that the army, which chose to make a spectacular show of force once given the order to restore control, remains a key factor in the Greek political scene and that a return to a military regime cannot be excluded.

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THAILAND: Political demonstrations and protests have continued throughout the country in the aftermath of last month's upheaval in Bangkok.

The US Embassy reports that a recent series of spontaneous, localized demonstrations in Thailand's hinterland provinces have focused on complaints against school administrators, provincial government officials, and the high price of rice. In Bangkok, vocational school students have demonstrated at the embassy of Nationalist China, presumably against the continued presence in Taiwan of former deputy prime minister Praphat and his son-in-law Narong.

The demonstrations have been short-lived and for the most part handled without incident by local authorities, but they have caused uneasiness in the capital. Prime Minister Sanya, Army Commander in Chief General Krit, and the director of the National Police appeared on television on 14 November to appeal for a return to "law and order" so that the new government can get on with its business. Krit is also reported to have recommended to Sanya that a bill soon to be promulgated granting amnesty to the October rioters include a call for a halt to further demonstrations.

Although Krit has complained privately about continued student agitation, press attacks on the armed forces, and public harassment of uniformed personnel, he apparently remains committed to a return to civilian government. At the moment, Krit is working closely with the King and the Prime Minister on a plan to dissolve the military-dominated National Assembly in favor of a new civilian body. Last week's television appeal included a promise by Krit that the army would henceforth stay out of politics--a move that could represent the first step toward dissolution of the assembly.

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar weakened slightly on major foreign exchange markets last week, after extraordinary gains in the previous two weeks. Contributing to the pressure were profit taking, a sharp rise in British lending rates, and a flurry of speculation related to the revaluation of the Norwegian crown. The announcement last Tuesday that central bankers had agreed to permit free market sales of official gold had little immediate market impact.

The dollar's upward surge prior to last week was fueled, at first, by the better US economic position as compared to that of Europe and Japan in the face of the Arab oil boycott. Currency traders who had been speculating against the dollar were forced to buy substantial amounts of dollars to protect short positions.

Leads and lags in commercial payments--used for speculation against the dollar earlier this year--were sharply reversed, adding a short-term stimulus to the dollar.

Prospects for renewed dollar appreciation appear reasonably good. The improvement in the US balance-of-payments position will increase the commercial demand for dollars and encourage firms and individuals to build up dollar holdings. The oil price hikes and production cutback by the Arabs, however, add new uncertainties to the international monetary picture.

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EC: The Council of Finance Ministers has agreed to work toward a joint anti-inflation program and to consider steps to renew progress toward economic and monetary union before the end of the year.

Following approval of the EC Commission's annual economic report highlighting the inflation problem, French Finance Minister Giscard d'Estaing suggested a new Community approach to combat inflation. The six proposals for parallel action by all the member states include: limits on the growth of money supplies; liberalization of import quotas, particularly on processed agricultural products; and income controls. Some countries--notably West Germany--believing they have already taken adequate measures, oppose wage and price controls. Nonetheless, the Council generally favored these proposals and ordered the Commission to prepare a specific anti-inflation program for Council discussion on 3-4 December and consideration at the planned EC summit on 14-15 December. The impact of any such program probably will be slight; even the relatively weak measures recommended by the Community in the past have often been ignored by member states.

The decision to consider new steps toward economic and monetary union was forced by a bold Commission initiative during the meeting. In a surprise move, the Commission called on the Council to strengthen the institutional framework for moving toward economic and monetary union, and announced that it will shortly submit proposals for the next steps. The EC heads of state, at their meeting in October 1972, set 1 January 1974 as the target date for the second stage of economic and monetary union.

The first stage, however, has been unsatisfactory. The UK, Ireland, and Italy are not in the joint currency float, intra-EC economic policy coordination has not advanced very much, and the second stage has not yet been defined. Until these and other problems are overcome, several members favor postponement of substantive decisions about the second stage.

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Last week, however, the ministers appeared ready to bypass earlier plans that could not muster the required unanimous approval and to move on to new, practical proposals. Even the French now seem to favor closer economic coordination that they formerly had resisted because it would compromise their sovereignty.

Despite this apparent change in attitudes, progress toward economic and monetary union will continue to be slow and halting. A regional fund--favored by the UK, Ireland, and Italy--might be adopted by the end of the year, but West Germany, the major contributor, will insist that the fund's size be small. Short-term monetary support for the joint float could be increased before the year is out, but additional credits--swap arrangements, for example--will be less automatic than the Commission would like. Reserve pooling, except on a token basis, and adoption of a unified position on international monetary reform, both strongly favored by the Commission, will not be approved until adequate Community political institutions are established.

Last week's meeting was designed to get the EC moving again toward the establishment of an economic and monetary union by the 1980 deadline. In contrast to the lack of progress at earlier meetings of finance ministers, national representatives at this session showed sufficient political will to hold out hope for their unity goals.

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WESTERN HEMISPHERE: Representatives of 23 Latin American and Caribbean nations, meeting in Bogota from 14 to 16 November to discuss the course of US - Latin American relations, have endorsed a broad agenda for an expected meeting with Secretary Kissinger early next year in Mexico.

The conference, attended by 16 foreign ministers, fulfilled the desires of its principal organizers-- Foreign Ministers Rabasa of Mexico and Vasquez of Colombia--to avoid major contentious issues and to contribute to a constructive dialogue with the Secretary. Among the topics the Latins want to discuss with the US are: greater cooperation within the hemisphere for development; the international monetary system; the role of multinational corporations; the transfer of technology; and the revitalization of the inter-American system.

Panama won support for a resolution that calls on the US to conclude a Canal treaty that will satisfy Panama's "just aspirations," but efforts by other countries to introduce controversial issues were defeated.

Delegates reportedly were divided in their views about Cuba--the only Latin American country not invited to Bogota. The possibility of reintegrating the Castro government in regional organizations will be raised with Secretary Kissinger, and a majority of countries reportedly will seek a definition of current US policy toward Havana.

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CHINA: Preliminary reports from the recently concluded autumn Canton trade fair indicate that US businessmen were quite successful. Representatives of some US firms in the petroleum and power fields were invited to Peking to continue discussions on the sale of whole plants. West European traders also did well.

Japanese businessmen, on the other hand, expressed some disappointment. High Chinese prices contributed to a sharp drop in Japan's purchase of raw silk and soybeans, and low Chinese bids reduced sales of Japanese steel bearings, usually an important sales item.

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FOR THE RECORD\*

Tanzania-China: Tanzania is expected to have its first MIG jet fighters in operation early next year. The aircraft, both MIG-17s and MIG-19s, were delivered by China earlier this fall and are being assembled by a Chinese team.

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*\*This item was prepared by CIA without consultation with the Departments of State and Defense.*

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